

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03  
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 CIEP-01  
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01  
DODE-00 PM-04 H-01 L-03 PA-01 PRS-01 /090 W  
-----141915Z 045827 /65

R 141745Z JAN 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 4735  
DEPARTMENT TREASURY

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E.O. 11652: N/A  
TAGS: EFIN, ECON, GW  
SUBJECT: REACTIONS TO THE PROPOSED US ECONOMIC  
STIMULATION PROGRAM

REF: BONN 00480

1. SUMMARY: INITIAL REACTION IN THE FRG TO THE  
U.S. PUMP-PRIMING PROGRAM ELICITED RESPONSES  
RANGING FROM IMPLIED MILD DISAPPOINTMENT OVER ITS  
SIZE TO CONCERN REGARDING ITS POSSIBLE EFFECT ON  
INFLATION. OFFICIAL PUBLIC REACTION SO FAR HAS  
BEEN SPARSE BUT POSITIVE, AS OFFICIALS WAIT FOR  
MORE DETAILS.

2. IN AN EDITORIAL PUBLISHED IN ITS JANUARY 11 EDITION,  
HANDELSBLATT ARGUED THAT PRESIDENT-ELECT CARTER'S  
ANNOUNCED MEASURES TO PRIME THE ECONOMY ARE VERY MO-  
DEST WHEN VIEWED AGAINST THE BACKGROUND OF HIS CAM-  
PAIGN PROMISES. IN VIEW OF THE MAMMOTH DEFICIT AND IN  
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VIEW OF REVIVING TENDENCIES FOR WAGE AND PRICE IN-  
CREASES, HOWEVER, CARTER'S ROOM FOR MANEUVER IS LIMITED.  
MOREOVER, HIS ADVISERS HAVE COME TO THE CONCLUSION THAT  
CONFIDENCE OF INDUSTRY AND READINESS FOR INVESTMENT  
COULD HARDLY BE REGAINED BY EXCESSIVE PUMP PRIMING.  
WHAT IS REQUIRED INSTEAD, ARE WELL PREPARED LABOR  
MARKET PROQRAMS, WITH QUALITY, NOT QUANTITY DECISIVE.

THIS EMPHASIS ON QUALITY WILL ALSO BE STRESSED BY THE CARTER TEAM DURING THE FORTH COMING ECONOMIC CONSULTATIONS WITH THE WESTERN PARTNERS; THE TEAM WILL ALSO POINT TO THE INFLATIONARY DANGERS OF TOO STRONG AN AMERICAN STIMULATION POLICY.

3. ON JANUARY 13, DIE WELT HEADLINED ANOTHER ARTICLE ON THE SUBJECT: "THE U.S. DOES NOT WANT TO CARRY THE BURDEN OF THE WEAK WORLD ECONOMY ALONE; WITH HIS 30 BILLION DOLLAR ECONOMIC PROGRAM, CARTER EXERTS PRESSURE ALSO ON BONN." ACCORDING TO THE WRITER, AMERICAN AND FOREIGN REACTION TO CARTER'S ECONOMIC POLICY PLANS HAS BEEN DIVIDED. WHILE FRANCE, GREAT BRITAIN AND ITALY ARE DISSATISFIED BECAUSE, IN THEIR VIEW, THESE PLANS GO NOT FAR ENOUGH IN STIMULATING ECONOMIC GROWTH, THE FRG AND JAPAN HAIL THESE PLANS AS A STEP IN THE RIGHT DIRECTION. PARIS, LONDON AND ROME BELIEVE THAT MORE FAR-REACHING PLANS BY WASHINGTON WOULD HAVE BEEN A SIGNAL TO BONN TO OPEN ITS MARKETS WIDER FOR IMPORTS. "NEVERTHELESS, THE AMERICAN EXAMPLE HANGS OVER THE BONN GOVERNMENT LIKE A SWORD OF DAMOCLES." THE FRG AND JAPAN "WILL HAVE TO FOLLOW THE AMERICAN EXAMPLE AT THE EXPENSE OF THEIR POLICIES OF ECONOMIC STABILITY." IT MAY BE ASSUMED THAT CARTER WILL DEMAND FROM THE TWO BIG INDUSTRIALIZED COUNTRIES STIMULATION COMPARABLE TO THE U.S. PACKAGE. WHEN RELATING IT TO THE RESPECTIVE GNP'S, THIS WOULD MEAN FOR BONN PUMP PRIMING BY UP TO DM 9 BILLION EACH IN 1977 AND 1978. DURING HIS VISIT TO BONN, THE REPORT CONTINUES, VICE PRESIDENT-

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ELECT MONDALE WILL OUTLINE THE VIEW OF CARTER'S TEAM THAT THE U.S. "CANNOT SHOULDER THE BURDEN (OF STIMULATING ECONOMIC GROWTH) ALONE." THUS, THE BONN GOVERNMENT MAY EXPECT "GROWING PRESSURE FROM ALL SIDES" IN THE COURSE OF PREPARATIONS FOR THE ECONOMIC SUMMIT, WHICH PRESUMABLY WILL TAKE PLACE IN MAY. IN THE VIEW OF CARTER'S ECONOMIC ADVISERS, THERE IS NOT MUCH ROOM FOR NEGOTIATIONS. THEY PRIVATELY ARGUE THAT CHANCELLOR SCHMIDT'S EXPECTATIONS IN REGARD TO INTERNATIONAL ECONOMIC RECOVERY HAVE NOT COME TRUE AND THAT, THEREFORE, SCHMIDT "MUST STEP ASIDE." IN THEIR VIEW, CARTER'S PLANS DEMONSTRATE HIS AWARENESS OF AMERICA'S INTERNATIONAL RESPONSIBILITY, WHICH, HOWEVER, "MUST BE SHARED AND COORDINATED." TURNING TO NEGATIVE UNION REACTION IN THE U.S., THE WRITER OPINES THAT ONE CAN INDEED QUESTION THE WISDOM OF THE TAX MEASURES, CALCULATING THAT THIS WILL ADD ONLY LITTLE TO ECONOMIC GROWTH, PERHAPS ABOUT 0.5 PERCENTAGE POINTS, WHICH WILL HARDLY SUFFICE TO QUICKLY REDUCE UNDEREMPLOYMENT.

4. STUTTGARTER-ZEITUNG ON JANUARY 13 COMMENTS AS

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DODE-00 PM-04 H-01 L-03 PA-01 PRS-01 /090 W  
-----141916Z 045873 /65

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FOLLOWS: PRESIDENT-ELECT CARTER'S ECONOMIC POLICY PLANS  
ARE DEFINITE PROOF THAT HE WILL BE A MORE CONSERVATIVE  
PRESIDENT THAN HAD BEEN EXPECTED ON THE BASIS OF HIS  
ELECTION CAMPAIGN STATEMENTS. THERE ARE NO INDICATIONS  
SO FAR THAT CARTER INTENDS TO CONTINUE THE TRADITION  
OF DEMOCRATIC PRESIDENTS TO ANNOUNCE THE OPENING OF  
A NEW ERA BY OFFERING A "NEW DEAL," "NEW FRONTIERS"  
OR A "GREAT SOCIETY." INDICATIONS ARE THAT CARTER  
WILL RESTRICT HIMSELF TO A MINIMUM OF GOVERNMENT INTER-  
FERENCE IN ECONOMIC MATTERS, THAT HE WILL ADHERE TO  
THE POLICY OF GIVING PRIORITY TO CURBING INFLATION,  
THAT ECONOMIC GROWTH IN THE U.S. THIS YEAR WILL HARDLY  
SURPASS THE 5 PERCENT MARK, AND THAT UNEMPLOYMENT WILL  
BE REDUCED BY HARDLY MORE THAN 1 PERCENT. THUS, THE  
ECONOMIC UPSWING IN THE U.S., FERVENTLY DESIRED BY  
OTHER WESTERN INDUSTRIALIZED NATIONS, WILL BE ANYTHING  
BUT BREATHTAKING. EUROPEANS BETTER PREPARE FOR NOT  
SEEING THEIR ECONOMIES GROW AS FAST AS THEY MAY HAVE  
EXPECTED AS A RESULT OF CARTER'S ELECTION. THIS MAY  
STRAIN THE ECONOMIC SUMMIT ANTICIPATED FOR NEXT SPRING  
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OR EARLY SUMMER.

5. ACCORDING TO DPA, OTTO WOLF VON AMERONGEN, THE PRESIDENT OF THE FEDERATION OF GERMAN CHAMBERS (DIHT), FEARS A NEW WORLD-WIDE INFLATIONARY PUSH AS THE RESULT OF THE CONTEMPLATED U.S. PROGRAM. (COMMENT: VON AMERONGEN IS KNOWN TO BE ULTRA-CONSERVATIVE IN HIS VIEWS.) IN ANOTHER REPORT, DEALING WITH THE CARTER/SCHMIDT TELCON, DPA SPECULATED THAT SCHMIDT PROBABLY INFORMED THE PRESIDENT-ELECT THAT THE FRG, WITH ITS CONTEMPLATED INVESTMENT PROGRAM, AIMS IN THE SAME DIRECTION.

6. IN PRIVATE DISCUSSIONS WITH OFFICIALS IN THE FINANCE MINISTRY, PERSONS CONCERNED WITH INTERNATIONAL AND EUROPEAN MONETARY AFFAIRS, EXHIBITED MODEST CONCERN ABOUT WHETHER THE PROPOSED U.S. PROGRAM, ALTHOUGH NOT OVERLY EXPANSIONARY IN RELATION TO THE SIZE OF THE ECONOMY, IMPLIES THAT THE U.S. WILL BE LESS STABILITY-ORIENTED IN THE FUTURE. THEY APPEARED PARTICULARLY INTERESTED IN THE INFLATIONARY IMPACT OF THE PROGRAM AND ASKED WHETHER ADDITIONAL ECONOMIC STIMULATION COULD BE EXPECTED THROUGH MONETARY POLICIES. AS REPORTED IN REFTEL, THE ONLY OFFICIAL PUBLIC REACTION HAS BEEN POSITIVE.

7. A REPRESENTATIVE OF AN INDUSTRIAL ASSOCIATION, IN CONTRAST TO THE CHAMBER OF COMMERCE FIGURE QUOTED ABOVE, TOLD US HE FELT THAT THE PROPOSED U.S. PROGRAM IS USEFUL, AND OPINED THAT HE WISHED THAT THE GERMAN GOVERNMENT WOULD DO SOMETHING SIMILAR, WITH AN IMMEDIATE IMPACT, RATHER THAN THE "LONG-TERM INFRA-STRUCTURE INVESTMENT" PROGRAM APPARENTLY BEING FORMULATED.  
STOESSEL

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